

Margins surprise, bottomline expands ...

SKF registered a handsome beat for Q3FY21 across all parameters. The company posted highest ever profitability led by improvement in topline and highest ever gross margins. Revenue for the quarter came in at ₹ 818.7 crore, up 15.7% YoY (vs. I-direct estimate of ₹ 781 crore). We anticipate a strong performance across the auto and industrial segment. Gross margins came in at 46.7%, an expansion of ~ 1230 bps. The significant jump in margins was on account of a reduction in purchase price of traded goods from group companies (in line with the transfer pricing mechanism that has been followed consistently). Following suit, EBIDTA margins came in at 22% in Q3 vs. 13.1% QoQ & 10.3% YoY. Absolute EBIDTA grew 148.6% YoY to ₹ 180.4 crore. Employee cost improved 16.6% YoY to ₹ 67.2 crore whereas other expenses registered an increase of 19.1% YoY to ₹ 134.8 crore. Consequent to the huge expansion in margins SKF reported highest every bottomline ending the quarter with a PAT of ₹ 128.1 crore, up 150.3% YoY. Tax rate for the quarter was 26.2%.

Auto revving, industrial to join party...

The auto segment has been revving up with festive uptick and pent up demand. However, in the last media interaction the management shared that the industrial segment was still lagging. Nevertheless, they expect Industrial to make a comeback in CY21. Overall, we expect FY21 to be at arm's length of FY20. From there on we expect SKF to post revenue, EBDTA & PAT CAGR of 17%, 24.5% & 25.9%, respectively.

Structural change in trading segment?

During the quarter, SKF posted an expansion of ~1230 bps in gross margins. The reason cited was reduction in purchase price of traded goods from group companies. Traded goods segment for SKF contributes nearly 50% to the topline. Thus, if the recent decline in price is structural in nature, then profitability could improve significantly from here onwards. Being cautious, we build in EBIDTA margin of 15% in FY21E and thereafter 16.8% & 17% for FY22E & FY23E, respectively.

Valuation & Outlook

Taking cognisance from the recent auto numbers, recovery in industrials, we revise our estimates upwards. We introduce FY23E numbers and pencil in 17%, 24.5% & 25.9% revenue, EBIDTA & PAT CAGR for FY21E-23E, respectively. Hence, with improved outlook and enhance visibility, we upgrade the stock from HOLD to **BUY** valuing the stock at 33x FY23E earnings with a target price of ₹ 2890/share (earlier ₹ 1615).



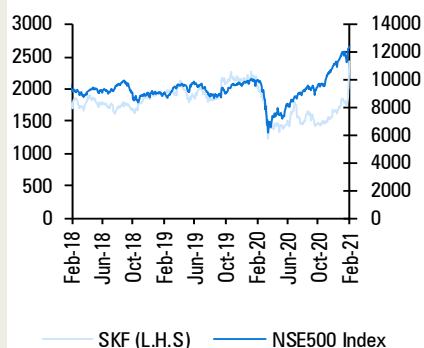
Particulars

Particular	Amount
Market Capitalization	11,964
Total Debt (FY20) (₹ crore)	0
Cash and Inv (FY20) (₹ crore)	618
EV (FY20) (₹ crore)	11,346
52 week H/L (₹) (BSE)	2420 /1237
Equity capital (₹ crore)	49.4
Face value (₹)	10

Key risk to our call

- Delayed recovery in industrial segment
- Further rise in steel prices, putting pressure on margins

Price Performance



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Key Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	3,035	2,842	2,649	3,152	3,625	17.0
EBITDA (₹ crore)	486	349	397	530	616	24.5
EBITDA margin	16.0	12.3	15.0	16.8	17.0	
Net Profit (₹ crore)	335.8	289.0	273.3	371	433	25.9
EPS (₹)	67.9	58.5	55.3	75	88	
P/E (x)	35.6	41.4	43.8	32	28	
EV/EBITDA (x)	23.6	32.5	29.6	22	19	
RoCE (%)	29.4	20.3	24.1	28	28	
RoE (%)	19.8	15.2	18.6	21	21	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Year	Q3FY21	Q3FY20E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Income from Operation	818.7	740.8	707.3	15.7	703.2	16.4	Topline recovered on a sequential as well as YoY basis tracking swift recovery in auto segment
Other Income	8.5	21.9	17.1	(50.2)	7.8	9.5	
Cost of material consumed	189.5	154.8	135.2	40.2	156.2	21.3	
Purchases of stock in trade	251.9	311.1	277.1	(9.1)	174.0	44.8	
Change in inventories	-5.1	7.3	51.8		111.5		
Gross margins (%)	46.7	36.1	34.4	1230 bps	37.2	951 bps	GMs improved exponentially led by reduction in purchase price of traded goods from group companies
Employee cost	67.2	58.5	57.6	16.6	57.9	16.1	Employee cost increased 16.6% YoY
Other expenditure	134.8	114.8	113.2	19.1	111.9	20.5	Other expense increased 19.1% YoY
EBITDA	180.4	94.2	72.6	148.6	91.8	96.5	
EBITDA Margin (%)	22.0	12.7	10.3	1178 bps	13.1	898 bps	Operating margins improved led by by better GMs
Depreciation	15.3	13.5	14.5	5.5	14.5	5.0	
Interest	0.0	2.5	2.5		0.8	(98.8)	
PBT	173.7	100.2	72.7	138.8	84.3	106.0	
Taxes	45.5	27.0	21.5	111.5	19.3	136.4	
PAT	128.1	73.1	51.2	150.3	65.0	97.0	PAT improved sharply led by dual advantage of increase topline & improved margins

Source: Company, ICICI Direct Research

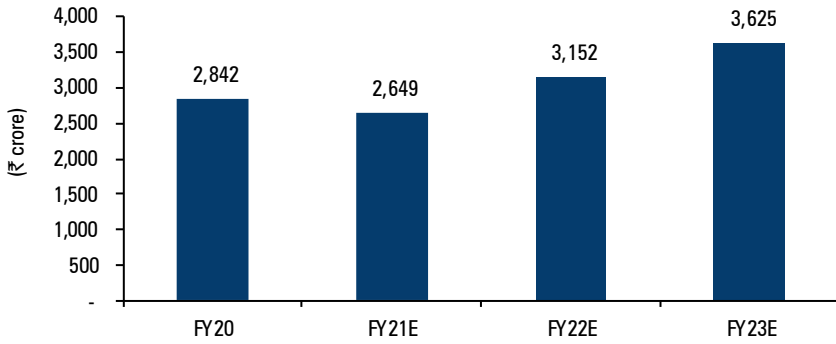
Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E			FY23E
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change	New
Revenue	3,034.5	2,841.6	2,400.4	2,648.9	9.4	3,022.6	3,151.9	4.1	3,625.3
EBITDA	485.9	349.5	250.8	397.3	36.9	423.2	529.5	20.1	616.3
EBITDA Margin (%)	16.0	12.3	10.5	15.0	-455 bps	14.0	16.8	-280 bps	17.0
PAT	335.8	289.0	162.8	273.3	40.4	295.0	371.1	20.5	432.9
EPS (₹)	67.9	58.5	32.9	55.3	40.4	59.7	75.1	20.5	87.6

Source: Company, ICICI Direct Research

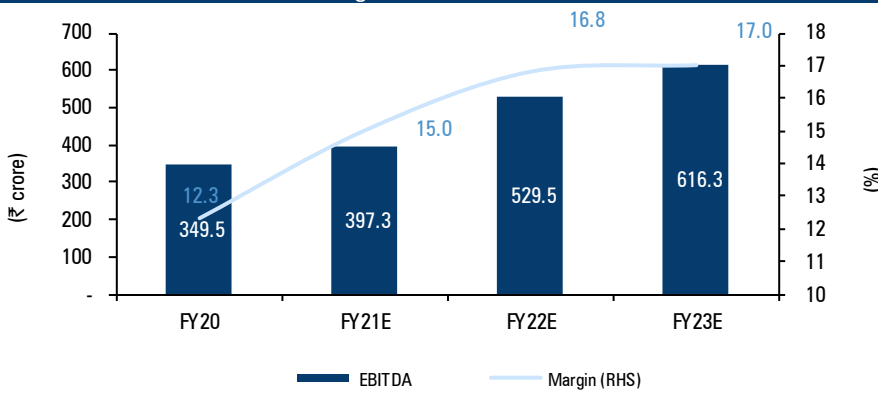
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



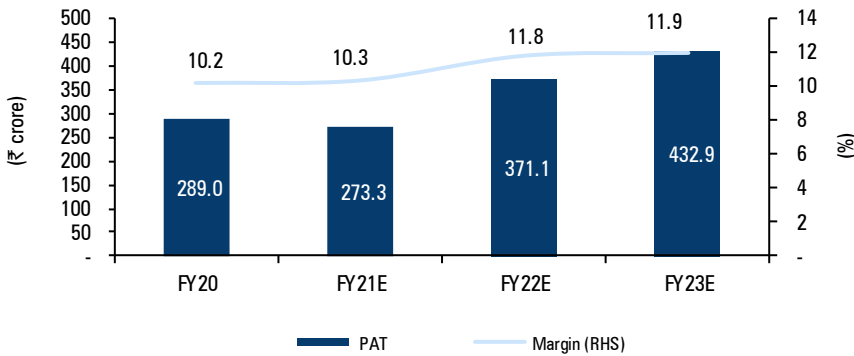
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



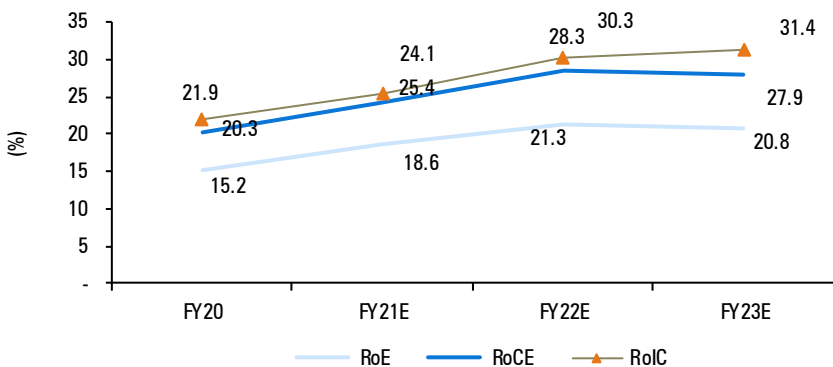
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Revenue	2,842	2,649	3,152	3,625
Growth YoY (%)		-7%	19%	15%
Other Income	104	40	65	75
Total Revenue	2,946	2,689	3,217	3,700
Cost of materials consumed	603	583	700	798
Purchase of stock-in-trade	1,203	874	1,056	1,214
Change in inventories	(16)	106	32	36
Employee cost	240	252	315	363
Other Expenses	462	437	520	598
Total expenditure	2,492	2,252	2,622	3,009
EBITDA	349	397	530	616
Growth YoY (%)		14%	33%	16%
Interest	-	3	5	5
PBDT	453	435	590	686
Depreciation	57	60	74	85
Profit Before Tax	387	374	515	601
Tax	98	101	144	168
PAT	289	273	371	433
Growth YoY (%)		-5%	36%	17%
EPS	58.5	55.3	75.1	87.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	49.4	49.4	49.4	49.4
Reserves & Surplus	1,856	1,422	1,694	2,028.4
Networth	1,905	1,472	1,744	2,077.8
Total Debt	-	45.0	45.0	45.0
Other non-current liabilities	-	47.6	47.6	47.6
Total Liabilities	1,905.3	1,564.2	1,836.4	2,170.5
Gross Block	554	664	814	934.3
Acc: Depreciation	240	300	374	374.3
Net Block	352	364	440	560.0
Capital WIP	41	70	100	100.0
Investments	237	237	237	236.5
Inventory	452	402	479	550.7
Sundry debtors	436	406	483	555.9
Cash and bank balances	618	238	331	476.3
Other financial assets	275	275	275	274.6
Other current assets	60	56	66	76.1
Total Current Assets	1,840	1,377	1,634	1,933.6
CL& Prov.	517	484	574	659.7
Net Current Assets	1,324	894	1,060	1,273.9
Total Assets	1,952.9	1,564.2	1,836.4	2,170.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	289	273	371	433
Depreciation	57	60	74	85
Interest	9	3	5	5
Other income	(104)	(40)	(65)	(75)
Prov for Taxation	98	101	144	168
Cash Flow before WC changes	349	397	530	616
Change in Working Capital	(83)	50	(74)	(69)
Taxes Paid	(98)	(101)	(144)	(168)
Cashflow from Operations	168	346	312	379
(Purchase)/Sale of Fixed Assets	(104)	(102)	(180)	(205)
(Purchase)/Sale of Investments	3	-	-	-
Other Income	104	40	65	75
Cashflow from Investing	3	(62)	(115)	(130)
Issue/(Repayment of Debt)	(90)	45	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(81)	-	(0)	-
Interest	(9)	(3)	(5)	(5)
Dividend paid	-	(707)	(99)	(99)
Cashflow from Financing	(180)	(664)	(104)	(104)
Changes in Cash	(9)	(380)	93	145
Opening Cash/Cash Equivalent	603	618	238	331
Closing Cash/ Cash Equivalent	593	238	331	476

*calculated, Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	58.5	55.3	75.1	87.6
Cash EPS	70.0	67.5	90.0	104.8
BV	385.4	297.6	352.7	420.3
DPS	130.0	13.0	20.0	20.0
Cash Per Share	48.5	60.7	75.7	75.7
Operating Ratios (%)				
EBITDA Margin	12.3	15.0	16.8	17.0
PBT / Net Sales	10.3	12.7	14.4	14.7
PAT Margin	10.2	10.3	11.8	11.9
Inventory days	58.0	55.5	55.5	55.5
Debtor days	56.0	56.0	56.0	56.0
Creditor days	64.7	64.7	64.7	64.7
Return Ratios (%)				
RoE	15.2	18.6	21.3	20.8
RoCE	20.3	24.1	28.3	27.9
RoC	21.9	25.4	30.3	31.4
Valuation Ratios (x)				
P/E	41.4	43.8	32.2	27.6
EV / EBITDA	32.5	29.6	22.1	18.7
EV / Net Sales	4.0	4.4	3.7	3.2
Market Cap / Sales	4.2	4.5	3.8	3.3
Price to Book Value	6.3	8.1	6.9	5.8
Solvency Ratios				
Debt/EBITDA	-	0.1	0.1	0.1
Net Debt / Equity	-	-	-	-
Current Ratio	3.0	2.3	2.4	2.5
Quick Ratio	2.2	1.4	1.5	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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